

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1284
ANSWERED ON:07.03.2008
LENDING RATES BY BANK
Bhakta Shri Manoranjan

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has decided to lower interest rates on bank deposits of all nationalized banks;
- (b) if so, the reasons therefor;
- (c) whether the Government is aware that corporate sector lending has not slowed down except in retail;
- (d) if so, the details thereof; and
- (e) the steps taken by the Government to safeguard the interests of retail and corporate sectors in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): With effect from 22nd October 1997, the Reserve Bank of India (RBI) has given freedom to commercial banks to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). As such, the rates of interest on deposits are determined by the banks themselves.

The details of domestic term deposit rates of public sector banks as in March 2006, March 2007 & January 2008 are given below:

(percent)
Deposit rates March 2006 March 2007 January 2008

Upto 1 year	2.25-6.50	2.75-8.75	2.75-8.50
>1year-3 years	5.75-6.75	7.25-9.50	8.00-9.25
Over 3 years	6.00-7.25	7.50-9.50	8.00-9.00

Source: RBI

(c) to (e): Effective from October 18, 1994, the Reserve Bank of India (RBI) has deregulated the interest rates on advances above Rs.2 lakhs, including the housing loans and these interest rates are determined by the banks themselves with the approval of their Boards of Directors subject to Benchmark Prime Lending Rates (BPLR) and spread guidelines. In order to enhance transparency in banks' pricing of their loan products, banks have been advised to fix their BPLR after taking into account

(i) actual cost of funds,

(ii) operating expenses and

(iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin and ensure that the BPLR truly reflects the actual cost. Given the prevailing credit market in India and the need to continue with concessionality for small borrowers, the practice of treating BPLR as the ceiling for loans upto Rs. 2 lakhs continues. However, Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of loans for purchase of consumer durables, loans to individuals against shares and debentures/bonds, other non-priority sector personal loans, etc.

Banks can also offer loans to exporters or other creditworthy borrowers, including public enterprises, at below BPLR on the basis of a transparent and objective policy approved by their respective Boards.

The details of Gross Bank Credit(GBC) to Industries and Retail Trade sector from April 2007 to November 2007 are given below:

(Rs. Crore)

Outstanding at the end of Industries Retail Trade

April 2007	677,901	55,246
May 2007	676,440	56,062
June 2007	681,731	56,225
July 2007	691,100	56,436
August 2007	714,067	57,503
September 2007	741,507	59,819
October 2007	738,802	60,042
November 2007	55,440	60,965

Source: RBI

The above figures indicate a growing trend in GBC to both the Industries and Retail Trade sectors.